



AUDIT

OF

UNDP COUNTRY OFFICE IN CHAD

GRANTS FROM THE GLOBAL FUND

Follow-up of OAI Report No. 1732 dated 13 January 2017

Report No. 2012

Issue Date: 26 October 2018



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**Report on Follow-up Audit of UNDP Chad
Grants from the Global Fund
(Previous OAI Report No. 1732, 13 January 2017)
Executive Summary**

The UNDP Office of Audit and Investigations (OAI), from 10 to 21 September 2018, conducted an on-site follow-up audit of one grant from the Global Fund managed by the UNDP Country Office in Chad (the Office). This on-site follow-up audit was undertaken, in addition to regular desk reviews, in view of the 'unsatisfactory' audit rating assigned by OAI in Report No. 1732 dated 13 January 2017. The follow-up audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Audit scope and approach

The follow-up audit reviewed the implementation of nine audit recommendations. OAI conducted appropriate tests of transactions and activities by the Office from 1 January 2017 to 30 June 2018 and interviewed management and staff concerned to determine whether the reported corrective actions were indeed implemented, as reported by the Office in the Comprehensive Audit and Recommendation Database System (CARDS).

Audit results

Of the nine audit recommendations, the Office had fully implemented eight and initiated action on one, resulting in an implementation rate of 89 percent as per CARDS on 10 October 2018.

Implementation status	Number of recommendations	Recommendation Nos.
Implemented	8	2, 3, 4, 5, 6, 7, 8, 9
In progress	1	1
Total	9	9

The detailed implementation status of the nine recommendations has been updated by OAI in CARDS.

Section I summarizes the nine recommendations that are in progress and implemented. OAI encourages the Office to continue to take appropriate actions to address the remaining recommendation. OAI will continue to monitor the progress of the implementation of the remaining recommendation as and when updates are provided by the Office in CARDS.

Section II presents one additional audit issue. While checking the implementation status of previous audit recommendations, OAI took note of one additional audit issue pertaining to financial management.

OAI addressed the additional audit issue with a high (critical) priority recommendation, for which prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.

The high (critical) priority recommendation is presented below:

Weaknesses in financial management (Issue 1)

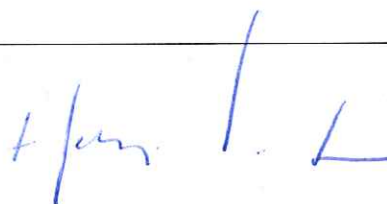
The audit team noted the following weaknesses in financial management:

- inadequate controls on cash advances given to the mobile payment provider such as unliquidated cash advances and non-payment of commissions to the provider amounting to \$1.8 million and \$300,000, respectively;
- excessive advance payments made to suppliers (three instances amounting to \$204,000);
- cash advances given to Sub-recipients not timely liquidated (four instances amounting to \$2.1 million); and
- insufficient validation of supporting documentation relating to invoices from suppliers or requests for reimbursement received from Sub-recipients, prior to making payments (three instances amounting to \$1.1 million).

Recommendation: The Office should strengthen its financial management by: (a) reconciling payments made to the mobile payment provider, including recovering any outstanding cash advances, and paying the applicable commissions based on the amount validated by the audit firm; (b) complying with the 'UNDP Programme and Operations Policies and Procedures' on the limit of advance payments that can be made to suppliers and properly recording advances in Atlas; (c) requiring Sub-recipients to liquidate cash advances within the required timeframe; and (d) validating the supporting documentation prior to processing payments or reimbursements.

Management comments and action plan.

The Resident Representative provided the revised implementation dates for the outstanding recommendation. He also accepted the new recommendation and is in the process of implementing it.



Helge S. Osttveiten
Director
Office of Audit and Investigations

I. Details of recommendations in progress and implemented

Rec No.	Issue title	Recommendation	Implementation status reported by UNDP Chad	OAI assessment
1	Lack of capacity in Programme Management Unit	High (critical) priority The Office should finalize the recruitment of vacant positions without delay.	Implemented The Office finalized the recruitment processes for all five vacant positions in July 2017.	In Progress In September 2018, the organization chart included five new vacant posts due to staff turnover. These posts had been vacant for up to 12 months. The recruitment processes were negatively impacted by the delays in advertising the vacancies or approving the terms of references prior to their publication. <u>Agreed revised implementation date:</u> 31 December 2018
2	Transition strategy not established	Medium (important) priority The Office should establish a detailed transition strategy in collaboration with the Government and the Global Fund.	Implemented A capacity-building plan to facilitate the transition of management responsibilities to the government ministry was prepared following a workshop on needs assessment. In addition, UNDP advocated to put in place a Programme Management Unit within the government ministry, which was the incoming Principal Recipient of the Global Fund grants.	Implemented Based on desk reviews and analysis of additional documentation provided during the on-site follow-up audit, this recommendation was assessed as "Implemented."
3	Monitoring and evaluation plan not fully implemented	Medium (important) priority The Office should coordinate with the national partner to develop a plan to strengthen the capacity of the focal points from the health district facilities	Implemented The focal points for malaria at the health district facilities and the regional health delegations were trained for three days in 2017 to collect and aggregate data. During the training, they also developed an action plan aimed at reducing the stockout levels.	Implemented Based on desk reviews and analysis of additional documentation provided during the on-site follow-up audit, this recommendation was

		and the regional health delegations in collecting and aggregating data.	This plan had three main components, namely: (i) weekly collection by the focal points of the stock level of pharmaceutical products in the health centres; (ii) implementation of performance-based supervision; and (iii) implementation of an alert procedure in case of stockouts.	assessed as "Implemented."
4	Incorrect agreement modality	High (critical) priority The Office should comply with the 'UNDP Operations Manual for Projects Financed by the Global Fund to Fight AIDS, Tuberculosis and Malaria' by committing to use the standard Sub-recipient agreement template when contracting Sub-recipients in the future.	Implemented The Office used the standard Sub-recipient agreement template when it contracted with two Sub-recipients during the audit period.	Implemented Based on desk reviews and analysis of additional documentation provided during the on-site follow-up audit, this recommendation was assessed as "Implemented."
5	Weaknesses in Sub-recipient reports	Medium (important) priority The Office should strengthen the reporting capacity of the Sub-recipients by: (a) issuing a management letter describing the weaknesses and the recommendations in relation to the Sub-recipient's reports; and (b) following up on the implementation of the recommendations raised in the management letters.	Implemented In early 2018, the Office prepared management letters describing the weaknesses and the recommendations in relation to the Sub-recipient reports. The findings from the Global Fund management letter, received in September 2018, were to also be incorporated at the time of the audit field work. The Office finally decided not to renew the agreements with the four main Sub-recipients past 30 September 2018. The management letters will therefore summarize the overall performance of the Sub-recipients.	Implemented Based on desk reviews and analysis of additional documentation provided during the on-site follow-up audit, this recommendation was assessed as "Implemented."

6	Weak oversight of direct payments	High (critical) priority The Office should coordinate with the Bureau for Policy and Programme Support on the implementation of the standard operating procedure related to the oversight and processing of the payments on behalf of the Sub-recipients.	Implemented The Office developed and implemented a standard operating procedure, which clarifies the roles and responsibilities of all parties involved in the management of direct payments on behalf of the Sub-recipients. Since the implementation of this standard operating procedure, the quality of the documentation received from Sub-recipients has improved.	Implemented Based on desk reviews and analysis of additional documentation provided during the on-site follow-up audit, this recommendation was assessed as "Implemented."
7	Inadequate quality assurance over finished pharmaceutical products	High (critical) priority The Office should improve the quality assurance of pharmaceutical products by finalizing and implementing a quality assurance plan that includes testing throughout the supply chain.	Implemented The National Quality Assurance Plan was finalized and adopted by the Directorate-General of Pharmacy in June 2017. It was subsequently endorsed by the government ministry in September 2017. This plan was then implemented (mandatory testing of all pharmaceutical products at point of entry in the Country, quality control testing throughout the supply chain every six months).	Implemented Based on desk reviews and analysis of additional documentation provided during the on-site follow-up audit, this recommendation was assessed as "Implemented."
8	Weaknesses within inventory, distribution, and warehousing of pharmaceutical products	High (critical) priority The Office should coordinate with the national partners to develop a plan to improve inventory management to monitor stock levels and the timely distribution of pharmaceutical products throughout the supply chain on a monthly basis.	Implemented A plan was developed in July 2017 to improve inventory management to monitor stock levels and the timely distribution of pharmaceutical products throughout the supply chain. The analysis of the procurement and supply management chain identified two root causes of stockouts: i) the needs could not be met by the available budgets; and ii) the absence of a reliable information system to manage stocks.	Implemented Based on desk reviews and analysis of additional documentation provided during the on-site follow-up audit, this recommendation was assessed as "Implemented."

			<p>These challenges were addressed through a series of measures:</p> <ul style="list-style-type: none"> i) using the savings from the procurement of pharmaceutical products to procure additional drugs; ii) training health practitioners on procurement and supply management best practices; and iii) piloting a SMS mechanism to report weekly stock inventories and trigger stockout alerts. 	
9	Weaknesses within inventory, distribution, and warehousing of pharmaceutical products	<p>High (critical) priority</p> <p>The Office should improve inventory management and storage conditions by:</p> <ul style="list-style-type: none"> (a) conducting refresher training to ensure accurate recording of inventory items; and (b) visiting the central warehouse, regional warehouses and health centres on a regular basis to ensure good storage conditions. 	<p>Implemented</p> <p>The Office established an oversight/supervision mechanism, which includes site visits during which the warehouse conditions are monitored and training is provided on recording of inventory items.</p>	<p>Implemented</p> <p>Based on desk reviews and analysis of additional documentation provided during the on-site follow-up audit, this recommendation was assessed as "Implemented."</p>

II. Other audit issue

While checking the implementation status of the previous audit recommendations, OAI took note of one additional audit issue under the area of financial management, as described below:

Issue 1 Weaknesses in financial management

The UNDP Internal Control Framework states that project managers are responsible for reviewing supporting documentation for payments, including the correct use of chart of accounts, prior to approving transactions. Further, according to the 'UNDP Programme and Operations Policies and Procedures', advance payments should not exceed 20 percent of the total contract amount. Cash advances in the framework of national implementation modality should be accounted for within six months.

The following weaknesses were noted:

1) Inadequate controls on cash advances given to the mobile payment provider

From January 2017 to June 2018, the Office processed payments amounting to \$7.5 million to the mobile payment provider, which were to be transferred to a list of beneficiaries. At the time of the audit, the cumulative commissions due to the mobile payment provider, amounting to \$300,000 (4 percent of amount transferred), had not been paid because of the delay in reconciliation and validation of cash advances to the provider. The Office explained the delay in settling invoices was due to inconsistencies in the reporting from the mobile payment provider, including not aligned with the agreed standard operating procedure. However, despite the non-compliance by the mobile payment provider, the Office continued giving cash advances to the provider.

In August 2018, an audit firm validated that 75 percent of cash advances given to the mobile payment provider was indeed transferred to the beneficiaries. However, the remaining 25 percent or \$1.9 million held by the mobile payment provider remained outstanding cash advances. This amount was not traceable in Atlas (enterprise resource planning system of UNDP), as it had been expensed at the time of the payments.

2) Excessive advance payments made to suppliers

In three instances, advance payments amounting to \$204,000 made to suppliers represented 50 percent of the total contract amounts. In addition, these advance payments were recorded as expenses instead of pre-payments as goods had not been received at the time of the payments.

3) Cash advances given to Sub-recipients not timely liquidated

Four cash advances amounting to \$2.1 million were only liquidated and accounted for after 15 months instead of 6 months. At the time of the audit, another cash advance had an outstanding unliquidated balance of \$612,000 for more than 15 months.

4) Insufficient validation of supporting documentation

In three instances, for payments amounting to \$1.1 million, there was no evidence that the Office reviewed invoices from suppliers, or requests for reimbursement received from Sub-recipients, prior to making the payments. The Office explained that direct review of Sub-recipient (assessed as low risk) expenses was done through spot checks.

Furthermore, there were inconsistencies noted in the supporting documentation. In two instances, for payments amounting to \$31,000, there were long delays between the proforma invoice dates and the payments of the goods (from 11 months to 2 years) without adequate justification. In another instance, for payments amounting to \$22,000, the evaluation of offers was done in April 2017 while the goods had already been delivered one year prior.

These issues were caused by ineffective oversight and lack of understanding of the policies and procedures. Failure to promptly reconcile and account for cash advances and comply with financial rules and regulations could lead to financial irregularities, including not using funds for their intended purposes.

Priority	High (Critical)
Recommendation 1:	
The Office should strengthen its financial management by:	
<ul style="list-style-type: none"> (a) reconciling payments made to the mobile payment provider, including recovering any outstanding cash advances, and paying the applicable commissions based on the amount validated by the audit firm; (b) complying with the 'UNDP Programme and Operations Policies and Procedures' on the limit of advance payments that can be made to suppliers and properly recording advances in Atlas; (c) requiring Sub-recipients to liquidate cash advances within the required timeframe; and (d) validating the supporting documentation prior to processing payments or reimbursements. 	
Management action plan:	
<ul style="list-style-type: none"> (a) Following a meeting held on 10 October, the mobile payment provider agreed to provide evidence of the remaining transactions. The audit firm will review and share the final report. Commissions will be paid based on validated amount. Any unjustified amount will be recovered. Going forward, the Office will strictly comply with the timely reconciliation of advances, and payments of associated commissions. (b) The Office has raised this issue with the Bureau for Policy and Programme Support and is expecting guidance from HQ regarding the advance payments exceeding 20 percent of the value of the contract through direct payment on behalf of Sub-recipients, as well as the appropriate Atlas account to be used. Such guidance will be strictly followed. (c) The Office will adhere to the requirements of timely liquidation of advances. For unliquidated advances, all financial reports have been submitted by the Sub-recipients. The data is being analysed and will be uploaded in Atlas to clear all current advances. (d) The review of the supporting documentation will be evidenced in case of reimbursement, or payments of multiple invoices from suppliers. The Office will reinforce the implementation of its standard operating procedures for direct payments by reviewing the accuracy of invoices and any timing difference issues prior to payments. 	
Estimated completion date: April 2019	

ANNEX Definitions of audit terms – implementation status, ratings and priorities

A. IMPLEMENTATION STATUS

- **Implemented** The audited office has either implemented the action as recommended in the audit report or has taken an alternative solution that has met the original objective of the audit recommendation.
- **In progress** The audited office initiated some action to implement the recommendation or has implemented some parts of the recommendation.
- **Not implemented** The audited office has not taken any action to implement the recommendation.
- **Withdrawn** Because of changing conditions, OAI considers that the implementation of the recommendation is no longer feasible or warranted or that further monitoring efforts would outweigh the benefits of full implementation. A recommendation may also be withdrawn when senior management has accepted the residual risk of partial or non-implementation of recommendation.

B. AUDIT RATINGS

- **Satisfactory** The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Some Improvement Needed** The assessed governance arrangements, risk management practices and controls were generally established and functioning but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Major Improvement Needed** The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.
- **Unsatisfactory** The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

C. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)** Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.
- **Low** Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.